

Message to the Treasury Staff and Bureau Budget Officers Budget Process Update

March 8, 1999

Overall

The Appropriations Committees are now in full swing with consideration and review of the FY 2000 appropriations requests of agencies. Most hearings on the House side have been completed with only the Secretary (March 18th) and Customs (March 18th) remaining. Senate hearings begin on March 25th with the Secretary and conclude in mid-April following the April recess for Easter. The Department is currently in the midst of the extensive process of completing numerous follow-on questions from the individual hearings, with short turnaround times. *Last year, questions from both the House and the Senate total almost 2,000 in number.*

Due to the late start by both the House and Senate at the beginning of the 106th Congress in January, both areas are moving quickly to keep the process on schedule for the ***traditional activity on markups that are scheduled to begin in mid-May.***

Budget Committee Start-Up

This year will be an unusually busy year with the passage of an expected Reconciliation Bill, overseen by the Budget Committees, to address proposals on Social Security reform and the levels of Discretionary spending.

Reconciliation is that part of the overall budget process that attempts to address major entitlement and permanent legislation beyond annual appropriations. Under existing budget laws, any independent action in this area must be completely neutral ("pay-as-you go"). Proposals that are designed to significantly change the enabling law must be handled through legislation which reconciles the process with overall cost impacts. Appropriations action, ***while not officially included in Reconciliation legislation***, is coordinated with overall dollar and spending targets set out in the proposed Bill. *Most Reconciliation legislation is for at least five years, with the last one being the Balanced Budget Agreement of 1997.*

This year's Reconciliation legislation will be the vehicle for addressing proposals for Social Security reform, Medicare, general use of the surplus, and any proposed adjustments to the Discretionary Spending Caps. It will be initiated with a Budget Resolution in the April/May timeframe, with the actual Reconciliation follow through process occurring in the May/June timeframe. Action is scheduled to be completed by mid April in advance of Appropriations Committees actions on Agencies requests. ***However, due to the complexity of issues involved, look for this process to be delayed.***

Last year, both the House and Senate completed action on the Budget Resolution

by June, however, action was delayed until almost the end of the fiscal year, creating a significant backlog on the Appropriations Bill process; the result was a large Omnibus Appropriations bill at the end of the session. This year, Congress is looking to advance that process and avoid the backup that occurred last year. Prior to that occurring, major proposals must be addressed first -- Social Security reform, Medicare proposals, discretionary spending. Many appropriation request proposals are contingent on the results of these discussions and deliberations.

Some Highlights of Treasury's FY 2000 Budget Request

<u>Summary:</u>	<i>FY 2000: \$12.659 Billion requested (After proposed offsets, net appropriations request totals \$12.205 Billion)</i>
	Offsets are: (1) \$312M through implementation of additional fee on Customs commercial operations; and (2) \$142M from Treasury Forfeiture Fund.
	<i>FY 1999: \$12.138 Billion [\$12.690 Bil. w/ Y2K]</i>

RECAP:

FY 1999:

<i>Base Appropriation</i>	<i>\$11.776 Billion</i>
<i>Emerg. Approp.</i>	<i>362</i>
<i>Y2K</i>	<i>552</i>
<i>Total FY 1999 Level</i>	<i>\$12.690</i>

FY 2000:

<i>Current Services</i>	<i>\$12.020 Billion</i>
<i>IRS Reform</i>	<i>197</i>
<i>Y2K</i>	<i>255</i>
<i>Other Proposals</i>	<i>187</i>
<i>Total FY 2000</i>	<i>\$12.659 Billion</i>
<i>Offsets: Fees</i>	<i>- 312</i>
<i>TFF</i>	<i>- 142</i>
<i>Net Appropriations</i>	<i>\$12.205 Billion</i>

Directions for Tax Administration

► **Budget recognizes and supports crucial turning point for Tax Administration.**

- ☞ *The stakes at the IRS are high -- FY 2000 is a crucial test. With the request, IRS will: **(1)** Fix one of the most massive Year 2000 (Y2K) computer problems in the U. S.; **(2)** Complete a successful filing season; and **(3)** Launch lasting changes to improve service to taxpayers.*
- ☞ *For the past several years, we have under-invested in the IRS. IRS systems are antiquated, and the workforce is inadequately trained and equipped. The budget moves forward in these areas.*
- ☞ *If the IRS is not fully funded, FY 2000 may not be a launching year for the Service, but, instead, a year that results in a significant step backward. Serious Y2K computer problems could lead to major filing season problems. Implementation of essential restructuring proposals and legislated reforms could stall. Commitments for the hope of a new, reformed IRS could be lost.*

► **IRS request sets out top priority goal of modernizing and reforming tax administration for top quality service to taxpayers.**

- ☞ *Reform and restructure is essential. Reforming and modernizing the single government service that touches almost every adult American requires IRS to reorganize and redesign business processes for improved customer service. This is essential to helping taxpayers understand and meet their tax responsibilities.*
- ☞ *Implementation of reform legislation key part of FY 2000 request. The budget supports major investments of \$197M to meet this goal. The IRS Reform and Restructuring Act of 1998 mandates a reorganization, but more importantly, pledges have been made to the American people to reform the IRS and give taxpayers the service they deserve. *Our budget follows through on this commitment.**
- ☞ *IRS has started on a new path to modernize and reform the IRS. While many changes have been launched, efforts thus far represent only a beginning. IRS has in place a new management team with a new mission and vision for the IRS. **Changes are underway:** plans have been announced for a totally revamped organization; a systems modernization blueprint has been unveiled; and the PRIME systems contract supporting the modernization effort was awarded in December 1998.*
- ☞ *IRS's proposed reorganization focuses on four organizational units*

emphasizing service to major taxpayer groups. Implementing the sweeping set of proposals -- systems modernization, effective resolution of the Year 2000 date conversion, reorganization -- requires funding to support a stable workforce and to allow the IRS to move forward on modernization efforts.

- ☞ *The Budget meets Year 2000 conversion (Y2K) needs.* IRS request includes the remaining funding needed in FY 2000 to effectively resolve Year 2000 data conversion requirements. FY 1999 funded through Emergency Y2K Reserve.

Directions for Law Enforcement:

- ◆ Budget sets out important objectives in the continuing efforts to meet new responsibilities and emerging challenges in Law Enforcement. ***Some highlights are set out below:***

- ☞ *Firearms enforcement is a key focus of the FY 2000 Budget.* The request supports initiatives that the Department and ATF have led over the past two years to prevent violent firearms crime by the Nation's youth.

- ☞ *A key initiative, the Youth Crime Gun Initiative, represents collaborative law enforcement effort between ATF, local police departments and prosecutors.* Its goal is to develop and share better information about how juvenile and offenders are illegally obtaining firearms, and to reduce the supply of firearms to kids by investigating, arresting, prosecuting illegal gun traffickers.

- ☞ *ATF proposes to enhance its integrated violence reduction strategy.* The request provides resources for Project Exile, monitoring secondary gun markets, such as gun shows, and supporting the FBI's National Instacheck System (NICS) program.

- √ Hand in hand with ATF's YCGII and Project LEAD, Project Exile has been credited by the U.S. Attorney's Office as a significant factor in reducing homicides by over 60%.
- √ The Brady Law has allowed ATF to document persons prohibited from purchasing firearms; new resources provide for enhanced field intelligence units and electronic receipt of purchase denials information.

- ☞ *The Secret Service continues to build its capacity to protect candidates and nominees for the elections in the year 2000 and meet other protective responsibilities.* The request provides for: **(1)** Candidate & Nominee

protection for the Year 2000 election; **(2)** continuation of protection funding approved with the Terrorism supplemental in FY 1999; and **(3)** support of mandatory workload and other protection initiatives.

- ✎ *Customs continues its focus on money laundering and the use of x-ray based equipment to advance interdiction efforts.* The request sets out initiatives in the use of X-ray equipment, training, and technology in support of money laundering (outbound). Investments are also proposed for the continued focus on integrity reviews.

CDFI/NADBank

- ✎ For CDFI, an appropriation request of \$125M is proposed for FY 2000, compared to an FY 1999 level of \$95M.
- ✎ \$15 million of the \$125 million requested is targeted to the Program for Investment in Micro-entrepreneurs (PRIME). PRIME will provide technical assistance grants to micro-enterprise intermediaries that assist low-income and disadvantaged entrepreneurs.
- ✎ For NADBank, an appropriation request of \$17M is proposed for FY 2000, compared to \$10M provided in FY 1999.

Summary of Proposed Offsets

- ◆ The FY 2000 sets out a program level of funding, supported by direct funding, proposed fees, and use of Treasury Forfeiture Fund balances. ***Program Level totals \$12.659 Billion; net appropriation level total \$12.205 Billion.***
- ✎ *For Customs, a new fee is proposed to support core commercial operations of the Service.* The proposal is to increase the fee on air and sea processing activities undertaken by Customs. The fee would need to be enacted by the authorizers prior its use.
- ✎ *All Law Enforcement operations are supported by the use of available balances in the Treasury Forfeiture Fund.* The proposal is that this funding, estimated at \$142 million, would support key base operations of Law Enforcement bureaus, along with a limited number of proposed initiatives.
- ✎ *A new fee is proposed to funded development of the Customs Automated Commercial Environment (ACE) program.* No expenditures are proposed in FY 2000 for the ACE program. The budget proposes a fee to support this development, and defers expenditures until FY 2001. The fee would need

to be enacted by the authorizers prior to its use.